U.S. Small Business Administration Cleveland District Office – 1111 Superior Ave Suite 630 – 44114
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District Developments

Economic Development and Government Contracting

December 2003

SBA ADMINISTRATOR APPOINTS PATRICK E. REA AS ADMINISTRATOR FOR REGION V

Patrick E. Rea, an accomplished banker, businessman and retired brigadier general in the U.S. Army Reserve, was selected by Administrator Hector V. Barreto to direct the U.S. Small Business Administration programs in its Region V area. The region serves the states of Illinois, Indiana, Michigan, Minnesota, **Ohio** and Wisconsin.

"Our regional offices are tremendously important to our work, and that is why I am so pleased to announce that Patrick will be taking the lead in our regional operations in the Midwest," said Barreto. "Entrepreneurs and small business owners from Michigan to Minnesota will be well served by his experience and dedication."

" I have had a number of lengthy phone conversations with Pat and he is just what we needed here in the Midwest. He understands the small business environment, is energetic and can help us at the district level make a positive contribution to the small business community" said Gil Goldberg, Cleveland District Director. He further added "I trust we will be able to bring him to the district so that he can meet our small business community first hand."

As regional administrator, Rea will oversee the delivery of SBA's economic development, government contracting and finance programs in the Midwest. In FY 2003, SBA and its resource partners counseled and trained 213,700 budding entrepreneurs in the region and lenders made 9,859 SBA-backed loans totaling $2.2 billion.

"This is an exciting opportunity to work with Midwestern states and to help support the programs of SBA," says Rea.

From the SBA's regional headquarters in Chicago, Rea will oversee district and branch offices in Chicago, IL; Springfield, IL; Indianapolis, IN; Detroit, MI; Marquette, MI; Minneapolis, MN; Columbus, OH; Cleveland, OH; Cincinnati, OH; Madison, WI and Milwaukee, WI.

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Relief for Reservists Called to Active Duty

Banks are encouraged to request a deferment or provide other relief assistance as appropriate on SBA guaranteed loans made to a reservist who has been called to active duty. In addition some small businesses have critical employees who have been called to active duty and as a result are experiencing difficulty in business operations. In those instances a deferment request or other relief is also encouraged.

In addition there are provisions contained within the Soldiers and Sailors' Civil Relief Act of 1940, as amended that effect the liquidation action on SBA loans in existence prior to a person's call to active duty.

Unless a court rules otherwise, there can be no sale, foreclosure or seizure of property for non payment of any sum due under a loan secured by mortgage, deed of trust or similar security instrument until three months after a debtor leaves active military service. This stay also applies to any actions under a power of sale or under a confession of judgment, and to foreclosure actions against property securing a guarantor's obligation on a loan. It is suggested that you direct any questions to the Cleveland District Office. (216-522-4180).

Military Reservist Economic Injury Loans Still Available

Small businesses with essential employees called to active duty may still apply for Military Reservist Economic Injury Disaster Loans from the U.S. Small Business Administration.

For the last two years, the MREIDL program has provided loans to eligible small businesses to cover operating costs that cannot be met due to the loss of a key employee called to active duty in the reserves or National Guard.

"Many small businesses have had to cope with the loss of know-how, and have been hurt financially by the absence of a key employee during the recent call ups," said SBA Administrator Hector V. Barreto.   "This loan program has helped many businesses survive, and the SBA will continue to support these dedicated men and women who have made such a great sacrifice in the course of serving their country."   Small businesses may apply for MREIDLs of up to $1.5 million if they have been financially impacted by the loss of an essential employee.

These working capital loans may be used to pay necessary operating expenses that could have otherwise been covered. The loans cannot be used to refinance debt or expand the business. The current interest rate is 3.1 percent, with a maximum term of 30 years. The SBA determines the amount of economic injury, the term of each loan and the payment amount based on the borrower's financial circumstances.

Patrick E. Rae – Regional Administrator –
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Before joining the SBA, Rea was the executive director for the Illinois Development Finance Authority (IDFA) where he directed the senior debt financing agency's economic development, small business expansion, local government capital needs, seed stage venture capital investments and film financing.

For more than 32 years, Rea has served as an elected Trustee of Tinley Park and since 1980 has been the Chairman of the Village's Finance and Economic Development Committee. He served as the chairman of the board and CEO of the Chicago chapter of the American Institute of Banking for four years. He is the past president and a member of the Executive Committee of the University of Illinois, College of Business Alumni Association. In addition, Rea serves on a number of boards of directors for public higher education, not-for profit foundations and professional associations, and has served on advisory committees at the federal, state and local level.

Rea, a native of Tinley Park, IL, holds a bachelor's degree in economics and business and a master's degree in economics from the University of Illinois at Urbana. Rea is the state chairman of the Illinois Committee for Employer Support of the Guard and Reserve (ESGR). He is a registered municipal and general securities representative. He has published in the area of local taxation and governmental debt financing.
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504 Eligible Project Costs, Administrative Costs, and Fees

SBA Information Notice No. 5000-885 announced that the final rule for the Certified Development Company (CDC) 504 loan program was published on October 7, 2003 and became effective November 6, 2003.

Since publication of the final rule, SBA has received inquiries as to whether the final rule revisions to the regulations governing eligible project costs, eligible administrative costs, and eligible fees will apply to all 504 loans closed on or after November 6, 2003 or to all 504 loans approved by SBA on or after November 6, 2003.

Please be advised that all 504 loans approved by SBA on or after November 6, 2003, must be in compliance with the regulations governing eligible project costs, eligible administrative costs, and eligible fees as revised. The changes to the regulations governing eligible project costs, eligible administrative costs, and eligible fees are the following:

§120.882 Eligible Project costs for 504 loans.

* * * * *

(c) Professional fees directly attributable and essential to the Project, such as title insurance, opinion of title, architectural and engineering costs, appraisals, environmental studies, and legal fees related to zoning, permits, or platting; and

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§120.883 **Eligible administrative costs for 504 loans.**

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(d) **Borrower's out-of-pocket costs associated with 504 loan and Debenture closing other than legal fees** (for example, certifications and the copying costs associated with them, overnight delivery, postage, and messenger services) but not to include fees and costs described in §120.882;

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§120.971 **Allowable fees paid by Borrower.**
(a) CDC fees. The fees a CDC may charge the Borrower in connection with a 504 loan and Debenture are limited to the following:

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(2) **Closing fee**. The CDC may charge a reasonable closing fee sufficient to reimburse it for the expenses of its in-house or outside legal counsel, and other miscellaneous closing costs (CDC Closing Fee). Some closing costs may be funded out of the Debenture proceeds (see §120.883 for limitations);

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§120.926 Referral fee.
The CDC can receive a reasonable referral fee from the Third Party Lender if the CDC secured the Third Party Lender for the Borrower under a written contract between the CDC and the Third Party Lender. Both the CDC and the Third Party Lender are prohibited from charging this fee to the Borrower. If a CDC charges a referral fee, the CDC will be construed as a Referral Agent under part 103 of this chapter.

Any questions regarding this notice may be referred to Gail Hepler at (202) 205-7530 or you may e-mail her at gail.hepler@sba.gov.

Entrepreneurs Expect Modest Startup Costs For Most New Ventures

New Study Shows They Seek To Cover Costs Without Bank Loans

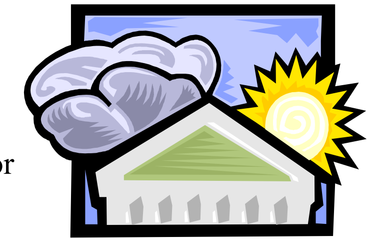
Entrepreneurs project modest startup costs for most new ventures, according to a study released today by

the Office of Advocacy. Solo entrepreneurs expect median startup costs of $6,000, while the median cost expected by team ventures is $20,000. More than 80 percent of the entrepreneurs studied expected to cover their startup costs without bank loans, although on average they had saved only $2,000 towards that goal.
"Not all new ventures require large infusions of capital," said Dr. Chad Moutray, Advocacy's Chief Economist . "Everyday ordinary Americans strike out on their own to grab their piece of the American Dream. It doesn't take a lot of savings to participate in the ownership society, just a good idea and lots of hard work and perseverance," he said. His remarks came at the report's release during the annual meeting of the Collegiate Entrepreneurs Organization in Chicago.

The study also showed that optimism about their business potential underlies the entrepreneurs' activities. On average, solo entrepreneurs believe they will have business income of $90,000 in the fifth year of their venture, while team ventures expect an income of $125,000 in the fifth year. The higher team venture projected income makes it more likely that such ventures will result in new job generation.

***Expected Costs of Startup Ventures*, conducted by Blade Consulting with funding from the Office of Advocacy, used data from more than 800 nascent entrepreneurs – individuals who are in the process of starting a business – gathered over a two-year period. The data are contained in the ongoing Panel Study of Entrepreneurial Dynamics (PSED), supported by the E.M. Kauffman Foundation.**

The Office of Advocacy, the "small business watchdog" of the government, examines the role and status of small business in the economy and independently represents the views of small business to federal agencies, Congress, and the President. It is the source for small business statistics presented in user-friendly formats and it funds research into small business issues.



For more information and the complete text of the report, visit the Office of Advocacy website at www.sba.gov/advo.

SBA Moves to Risk-Based Lender Oversight

The U.S. Small Business Administration is implementing a risk-based approach to overseeing individual lenders that includes an early warning predictive score component and a more comprehensive lender review process.

"With these tools, the SBA will be in a better position to identify and manage risk in our loan portfolio," said SBA Administrator Hector V. Barreto. "The more efficient, streamlined monitoring of our lenders will result in significant benefits for them and for the agency alike. It also furthers the Administration's push to leverage technology into the agency's programs."

Last spring, the SBA hired Dun &Bradstreet and Fair Isaac, two industry leaders in the fields of risk management, to provide loan and lender monitoring service for the agency. The system was recently delivered by Dun & Bradstreet to the SBA, and provides the agency with the ability to asses the performance of individual lenders and evaluate the overall performance of the SBA's 7(a) and 504 loan portfolios.

At the heart of the services provided is the Dun & Bradstreet/Fair Isaac Small Business Predictive Score. The entire SBA loan portfolio is credit scored for portfolio management purposes – not for credit decisions – on a quarterly basis. Once scored, the SBA analyzes the portfolio to quantify loan and lender performance and to proactively track relevant trends.

The benefits of the new oversight tool are:
Risk ranking of all SBA lenders;
Effective off-site monitoring of credit and performance trends of SBA lenders;
Frequency and scope of lender reviews tied to risk profile of lenders;
Lender and portfolio benchmarking and peer comparisons; and
Utilization of industry best practices as part of lender oversight methodologies.

The SBA Office of Lender Oversight is implementing the loan and lender monitoring system agencywide, and will issue further guidance for lenders on the impact of this risk-based oversight in the near future.

Calendar Year 2004 Schedule of 1502 Report & Payment due dates for 7(a) Loans.

Paragraph 6 of SBA Form 1086, states that payments are due at the Fiscal and Transfer Agent (FTA) on the third **calendar** day of the month, or the next business day if the third is not a business day. The SBA allows a grace period of two business days after the due date. If FTA receives a regularly scheduled payment after the expiration of the grace period, a Late Penalty is assessed (subject to a maximum of $5,000.00). Paragraph 6(c) of SBA Form 1086 describes the components of the Late Penalty. Lenders are billed for Late Penalties at the end of each month. Late Penalties are due to Colson (FTA) with the Lender's next monthly remittance.

Below is a schedule of **final** due dates, which includes the grace period of two business days for regularly scheduled payments. Payments received after the due date will be subject to the Late Penalty.

JANUARY	**7**
FEBRUARY	**5**
MARCH	**5**
APRIL	**7**
MAY	**5**
JUNE	**7**
JULY	**8**
AUGUST	**5**
SEPTEMBER	**8**
OCTOBER	**6**
NOVEMBER	**5**
DECEMBER	**7**

Questions concerning Late Penalties from the lenders should be directed to Mr. Larry Packer of Colson Services Corp. on 718-242-6657 or via e-mail at PACKERL@COLSONSERVICES.COM

Rule Change Will Allow More Small Businesses to Qualify for SBA Assistance

The U.S. Small Business Administration has increased its revenue-based size standard for small businesses in the facilities support services industry from $6 million in average annual receipts to $30 million.

The new size standard will allow more companies to qualify for small business assistance and compete as a small business for federal contracts. It was published as a final rule in the *Federal Register* on October 15, 2003, and is effective on November 14, 2003. Under the new rule, the sub-category of base maintenance will also increase from $23 million to $30 million.

The change was the result of numerous requests from small businesses in the facilities support services industry. Representatives from these companies argued that an increase in size standards is warranted to reflect the size of federal contracts in this industry and that it would allow them to grow to a size at which they can effectively compete with large businesses. Based on a review of these issues and data on the facilities support services industry, SBA concluded that a higher size standard for this industry is appropriate. SBA examined factors including average firm size, distribution of firms by size, start-up costs and industry competition.

“We recognized the potential for growth in this industry and increased the size standard to ensure that small businesses will receive access to capital and their fair share of contracting opportunities,” said SBA Administrator Hector V. Barreto.

SBA’s size standards define whether a business entity qualifies as small and whether it is eligible for government programs and assistance reserved for small businesses, including some programs in other agencies. Under the new rule, more small businesses will be eligible to apply for SBA’s financing and loan programs as well as contracting and business development programs such as the 8(a) Business Development program, HUBZone Empowerment Contracting program and small business set-asides.

Size standards are established separately for industry groups as defined by the North American Industry Classification System.

For additional information on the new size standard, visit the SBA’s Office of Size Standards Web page at **www.sba.gov/size**, and click on **“What’s New?”**

SBA Form 912 – Personal History - Revised

SBA Form 912, Statement of Personal History, was revised in October 2003. All previous versions of SBA Form 912 are now obsolete.

SBA uses Form 912, Statement of Personal History, in making character and credit eligibility decisions in determining whether to guarantee or make a loan, guarantee a surety bond, certify a firm for section 8(a) program status, issue certificates of competency, or for other forms of SBA assistance. SBA Form 912 was revised to further address the legal status of aliens. The previous version of the form asked the "yes" or "no" question: are you a U.S. citizen? The form was revised to add a follow-up question for those who indicate they are not a U.S. citizen, asking whether respondents are "lawful permanent resident aliens." As before, all non-U.S. citizens applying for SBA assistance would then continue to provide their alien registration number.

The change to SBA Form 912 addressing the status of aliens was recommended by the U.S. Immigration and Customs Enforcement (ICE) (formerly part of the Immigration and Naturalization Service (INS)) to reduce the possibility that illegal aliens can use SBA programs to defraud the American Public.

Please note that the term “lawful permanent resident alien” used in the revised SBA Form 912 is synonymous with the term “legal permanent resident (LPR)” as used in SOP 50 10(4) starting on page 70.

Due to the importance of this revision, please make sure the revised SBA Form 912 is being used (available under "Financial Assistance Forms" at http://www.sba.gov/library/forms.html) In addition, lenders should continue to comply with all other requirements in the SOP when determining the eligibility of businesses owned by persons who are not citizens of the United States. If lenders or sureties have any questions regarding the change, please contact the Cleveland District Office

504 Debenture Funding Schedule for Calendar Year 2004

Please find below the recommended financing schedule for the 2004 SBA 504 debenture program. The 2004 calendar and holidays are such that there is no need to deviate from the traditional directions for generating the schedule.

Key dates for 504 Debenture Fundings are listed below:

Cut-off dates for Colson Services Corp. to receive **the documents for funding.**	**Debenture pricing date – Interest rate determined.**	***Debenture funding date – Distribution of proceeds.***
December 23, 2003 *	January 6, 2004	January 14, 2004
January 20, 2004	February 3, 2004	February 11, 2004
February 24, 2004 *	March 9, 2004	March 17, 2004
March 23, 2004	April 6, 2004	April 14, 2004
April 20, 2004 *	May 4, 2004	May 12, 2004
May 25, 2004	June 8, 2004	June 16, 2004
June 22, 2004 *	July 6, 2004	July 14, 2004
July 20, 2004	August 3, 2004	August 11, 2004
August 24, 2004 *	September 7, 2004	September 15, 2004
September 21, 2004	October 5, 2004	October 13, 2004
October 26, 2004 *	November 9, 2004	November 17, 2004
November 23, 2004	December 7, 2004	December 15, 2004

* These months include the sale of both 10 and 20 year debentures.

Directions for generating funding schedule:
Pricing Date = First Tuesday of first full week of month (beginning and including Sunday)
Funding Date = Wednesday of week following Pricing Date
Cut Off Date = Two weeks prior to Pricing Date